

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7593

BILL NUMBER: HB 1471

NOTE PREPARED: Feb 6, 2009

BILL AMENDED: Feb 5, 2009

SUBJECT: Assessment Rules.

FIRST AUTHOR: Rep. Pelath

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill does the following.

Assessment Rules: This bill prohibits the Department of Local Government Finance (DLGF) from changing the standards used to assess tangible property for property tax purposes except as necessary to bring a rule into conformity with a statute.

Cyclical Reassessments: The bill allows a county to conduct cyclical reassessments of real property instead of general reassessments.

Valuation Date: This bill changes the valuation date used in the last reassessment to March 1 of the year immediately preceding the reassessment date.

Agricultural Land: The bill provides that land is assessed as agricultural land only when it is utilized for agricultural purposes (as defined by the General Assembly or recognized by the United States Department of Agriculture). It also prohibits rules restricting the calculation of the circuit breaker for agricultural land.

The bill repeals a law requiring the State Board of Tax Commissioners (which no longer exists) to adopt rules.

Effective Date: (Amended) Upon passage; January 1, 2009 (retroactive); July 1, 2009.

Explanation of State Expenditures: (Revised) *Assessment Rules:* The DLGF has promulgated new real property and mobile home assessment rules that will be effective for taxes payable in 2012. Under this

proposal, the new rules would be voided and the current rule would remain in effect indefinitely. The DLGF would be required to update the various tables, formulas, and values contained in the rules to account for changes since the last general reassessment. The DLGF should be able to make the updates with existing resources.

Cyclical Reassessments: Under this bill, the optional cyclical reassessments would be determined using DLGF appraisal rules. The DLGF would most likely need to provide cost table updates each year. According to the DLGF, the Department already subscribes to annual updates from the service that provides the cost data. The DLGF reports that they might need up to two additional staff statisticians in order to administer the cyclical reassessments. The total cost for salary, fringe, and indirect costs for two new employees at a salary of \$60,000 is estimated at \$167,000 per year.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Cyclical Reassessments:* Under a cyclical reassessment schedule, expenditures for reassessment in a county would be spread from a two-year period to a period of up to four years.

Explanation of Local Revenues: (Revised) *Assessment Rules:* A requirement to continue the current assessment rules for taxes payable in 2012 and later would result in assessments that are different each year only because of market forces. Assuming that all property is currently assessed in accordance with the assessment and trending rules, a general reassessment under the same rules but with updated tables should result in only modest one-year changes to assessments. Changes in assessments drive tax shifts, and along with levy growth, affect the cost of circuit breaker credits.

(Revised) *Cyclical Reassessments:* Under current law, real property is fully reassessed every five years. The next general reassessment takes effect with taxes payable in 2012. Annual adjustments to real property values are applied each year in which a general reassessment does not take effect.

Beginning with March 1, 2009, assessments, this bill would permit a joint decision between the county assessor and the county executive to conduct cyclical reassessments rather than the general reassessment. An equal percentage of parcels in the county would have to be reassessed each year and each property would have to be reassessed at least every four years. Parcels that are not reassessed in a year would still be subject to annual adjustments.

Assuming that all property is currently assessed in accordance with the assessment and trending rules, general reassessments under current law should result in only modest one-year changes to most assessments. The general reassessment also picks up physical changes in property not previously noted. The change to cyclical reassessments would have the same overall effect. Since annual adjustments would continue for non-reassessed property, there should be no discernable change in overall assessment levels.

(Revised) *Valuation Date*: Annual adjustments under the current rule on trending are based on the property valuation as of January 1 of the year prior to the assessment date. The valuation date has been changed to match the assessment date in the general reassessment rule already promulgated for the March 1, 2011, reassessment. (This is the rule that would be voided under this bill.) Beginning with the March 1, 2011, assessment date (taxes payable in 2012) this bill would require that the valuation date and the assessment date be the same.

The more current assessments would have an effect on the tax base, tax rates, and circuit breaker credits. When values are on the decline or growth is slow, then the assessed value base will be smaller under this bill than under current law. The smaller AV base would result in higher tax rates. The higher tax rates and lower assessments would then result in higher circuit breaker credits in areas where the circuit breaker has been triggered.

When values are growing at a higher rate, then the assessed value base will be larger under this bill than under current law. The larger AV base would result in lower tax rates. The lower tax rates and higher assessments would then result in lower circuit breaker credits in areas where the circuit breaker has been triggered.

(Revised) *Agricultural Land*: Under current law, land is assessed as agricultural land only if it is devoted to agricultural use. Under this bill, land would be assessed as agricultural land only if it is utilized for agricultural purposes as defined by the General Assembly or recognized by the U.S. Department of Agriculture. This provision would have minimal, if any, impact.

Also under current law, agricultural land is subject to a 2% circuit breaker cap (2.5% in 2009). The cap for other business property is 3% (3.5% in 2009). This bill would also prohibit the DLGF from restricting the calculation of the 2% credit for land utilized as agricultural land. This provision clarifies that the property tax on land qualified by its use as agricultural land will be capped at 2% of gross AV (2.5% in 2009), regardless of the overall parcel use classification by the local assessor.

State Agencies Affected: DLGF.

Local Agencies Affected: Township and county assessors.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.